

OUTLOOK

A Publication of the South Dakota Retirement System

Number 1 • February 2002

Retirement Planning

Know Your Choices When Planning an Early Retirement

For many members, retirement planning includes a serious consideration of SDRS's early retirement provisions. In fact, nearly 75 percent of the SDRS members who retire take advantage of either "Regular" or "Special" early retirement.

Regular Early Retirement

If you are at least 55 years old with three or more years of credited service, you qualify for SDRS's Class A Regular Early Retirement. Your age, however, will play a

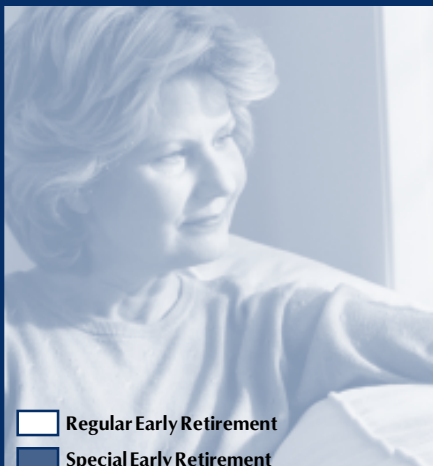
crucial role in determining the amount of your SDRS benefit. Because younger retirees stop contributing to SDRS sooner and collect benefits longer, SDRS reduces early retirement benefits by 3 percent for every year a member is under the age of 65. Consequently, a member retiring at 60 would have a benefit reduction of 15 percent (5 years times 3 percent).

Special Early Retirement

Special Early Retirement provides an incentive for long term service by

eliminating the early retirement benefit reduction for Class A members who are age 55 and older and who have met the Rule of 85. This rule qualifies any combination of age and credited service that adds up to at least 85 for an unreduced benefit. For instance, a member with 30 years of credited service could retire with full benefits as early as age 55 (55+30 years = 85). Similarly, a member with only 25 years of credited service could retire with full benefits at age 60. **OUTLOOK**

Regular and Special Early Retirement—Percent of Benefit You'll Receive



Years of Credited Service	Retirement Age									
	55	56	57	58	59	60	61	62	63	64
20 and less	70%	73%	76%	79%	82%	85%	88%	91%	94%	97%
21	73	76	79	82	85	88	91	94	97	100
22	76	79	82	85	88	91	94	97	100	100
23	79	82	85	88	91	94	97	100	100	100
24	82	85	88	91	94	97	100	100	100	100
25	85	88	91	94	97	100	100	100	100	100
26	88	91	94	97	100	100	100	100	100	100
27	91	94	97	100	100	100	100	100	100	100
28	94	97	100	100	100	100	100	100	100	100
29	97	100	100	100	100	100	100	100	100	100
30 and more	100	100	100	100	100	100	100	100	100	100

☐ Regular Early Retirement
☒ Special Early Retirement

Inside This Issue...

OUTLOOK

2 Tools for Retirement Planning **3** When SDRS and Social Security Aren't Enough
5 SDRS Puts Retirement Planners on the Road

Retirement Planning

Tools for Retirement Planning

Successful retirement planning, like successful carpentry, depends on the quality of the tools at your disposal. Fortunately, there are two first-rate tools for estimating the value of your SDRS and Social Security retirement benefits, the main sources of your retirement income.

Benefit Calculators

Available on both the SDRS and Social Security Web sites (see box), benefit calculators are simple to use, even if you're new to the Internet. Answer questions about your age, salary and when you plan to retire, submit your data, and the calculator will immediately display your lifetime monthly benefit amount. These tools allow you to consider retirement alternatives by changing a variable such

as a projected retirement date or salary amount.

If you'd like to take your Social Security calculations a step further, there are three different Social Security benefit calculators, each requiring more information and, in turn, providing a more precise estimate of your monthly benefit amount.

Another good resource is the LifePlan retirement calculator available from the Web site of the National Council on Teacher Retirement. However, please note that this calculator does not contain any factor for inflation.

Benefit Statements

While benefit calculators are effective tools that offer basic retirement planning information, both SDRS and Social Security

periodically provide you with benefit statements that present a more complete look at your benefits.

The statements are excellent for tracking the progress of your retirement plans from year to year—summarizing your contributions and listing the benefit amounts for which you're eligible at various retirement ages. Additionally, they define the nuts-and-bolts elements of your retirement plans and explain how they actually work.

It's a good idea to carefully examine your SDRS and Social Security benefit statements to be certain that your information is accurate. The SDRS benefit statements are sent out in August each year and the Social Security statements arrive three months before your birthday.

Extra help

Whichever tools you're using, both SDRS and Social Security can assist you in getting the most from them.

SDRS

While SDRS authorized agents can answer questions locally, benefit specialists at the SDRS office in Pierre are also available to help. Additionally, SDRS retirement planners will periodically bring group presentations and private consultations to your area.

Social Security

Social Security offers the options of calling a toll-free telephone number, going to a comprehensive Web site or visiting a local Social Security office (see box at left.) **OUTLOOK**

Where to Look



BENEFIT CALCULATORS:

SDRS—<http://www.state.sd.us/sdrs/PlanningForRetirement/CalculatingSDRSBenefit.htm>

Social Security—<http://www.ssa.gov/planners/calculators.htm>

LifePlan—<http://www.nctr.org/content/lifeplan/calcltrs/retcalc.htm>

WEB SITES:

SDRS—<http://www.state.sd.us/sdrs/> (View the new SDRS Web site)

Social Security—<http://www.ssa.gov/>

- * Request a Social Security statement

- * Request a benefit verification letter

- * Use a benefit planner

- * Find the Social Security office nearest you

- * Download Social Security publications

LifePlan—<http://www.nctr.org/content/lifeplan/lifeindx2.htm>

TELEPHONE:

SDRS—605-773-3731

Social Security—800-772-1213

Supplemental Retirement Plan (SRP)

When SDRS and Social Security Aren't Enough

Costing hundreds of thousands of dollars, a secure retirement is the single most expensive purchase you will ever make. Although you have SDRS and Social Security to rely on, even combined they may not be enough. For example, retirement dollars may fall short when you:

- Work less than a full career as an SDRS member (30 years for Class A)
- Have a higher-than-average salary
- Have high medical costs, debt or mortgages after retirement
- Have extensive travel plans, a vacation or a winter home in mind
- Experience a rate of inflation that exceeds the SDRS and Social Security annual cost-of-living adjustments (COLA)

In any of these instances, you may

have to fall back on the earnings from personal savings to fill the gap. While there are many ways to invest, one of the best is the SDRS Supplemental Retirement Plan (SRP). The SRP is a tax-deferred method of creating a diversified portfolio of mutual funds through automatic payroll contributions.

Tax-deferred Investing

The SRP's tax-deferred status allows participants to delay paying taxes on both their contributions and earnings until after retirement. The result: dollars formerly used to pay taxes instead increase your personal retirement savings. Not only do members have the use of tax dollars to gain earnings, but because taxable income is usually lower after retirement, withdrawals from the SRP will typically be taxed at a lower rate than.

A Diversified Portfolio

In addition to being tax-deferred, the SRP offers a wide range of investment alternatives that consists of mutual funds with a focus on stocks, bonds and money market reserves. The alternatives allow participants to tailor their portfolios to fit their tolerance for risk and their own investment objectives.

Automatic Payroll Deductions

Convenience is a powerful incentive to begin and then maintain a savings plan. The SRP's payroll deduction feature makes contributing simple while still allowing for flexibility. Participants can begin with as little as \$25 per month automatically deducted from their paycheck. Recent changes in the tax law have increased the maximum annual contributions in 2002 to \$11,000. Members over age 50 can contribute an additional \$1,000 (an accelerated contribution) for a total annual tax-deferred contribution of \$12,000. This

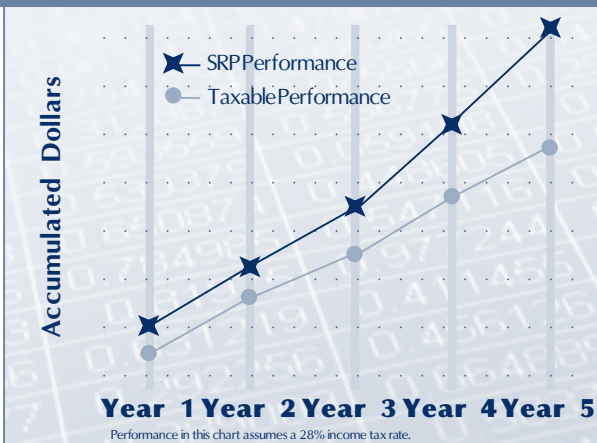
maximum contribution amount will increase in future years. (See chart, Annual Increases in SRP Contribution Caps) Even higher contributions can be made in the three years before normal retirement.

For more information on the SRP, call 1-800-959-4457. **OUTLOOK**

Annual Increases in SRP Contribution Caps

2003	\$12,000, increased to \$14,000 for participants over age 50
2004	\$13,000, increased to \$16,000 for participants over age 50
2005	\$14,000, increased to \$18,000 for participants over age 50
2006	\$15,000, increased to \$20,000 for participants over age 50
After 2006	The maximum and the accelerated contribution caps are indexed to adjust for inflation

SRP Out Performs Taxable Plan by 40%



Assuming the same annual earnings, a deferred compensation plan like the SRP will return 40 percent more over a 5-year period than a taxable investment plan. This advantage is possible because the amount that would have been paid out in taxes on contributions and earnings remains in the fund. As the chart illustrates, the compounding effect of these extra dollars is significant.



Board Notes

The following is a summary of major issues that came before the SDRS Board of Trustees at its meeting on December 5, 2001.

Financial Reports—

The board reviewed SDRS's financial statements for fiscal year 2001. Also reviewed were the financial audit prepared by KPMG, an investment report prepared by the State Investment office staff, and the actuarial valuation prepared by Buck Consultants.

Investment Update—

Steve Meyers, State Investment Officer, reported on SDRS's fund returns to date.

Benefit Improvement Considerations—

In accordance with the actuary's recommendation, the board proposed no benefit improvements for the 2002 Legislative Session, beyond increasing the Class A benefit formula multipliers by 20 percent for credited service after July 1, 2002. The increase is possible because of the higher Class A contribution rates going into effect on that date.

SDRS Equivalent Benefits Comparison—

Paul Schrader, consulting actuary, presented a brief comparison of SDRS's Class A benefits with survey averages of similar plans. The findings revealed that when SDRS's ancillary

benefits, such as the COLA and survivor benefits were considered, SDRS's Class A standard multiplier of 1.625 percent had an equivalent value of 2.45 percent and compared favorably with the plans surveyed.

Retirement Laws Committee: Retire/Rehire Issue—

The board debated the pros and cons of five alternatives for resolving the retire/rehire issue. The board also heard testimony from several constituent groups urging the board not to change the current provisions. A consensus was not reached, and the board will continue to study the issue, seeking a solution that will address the member, employer and legislative concerns surrounding it.

Proposed Legislation—

The board took the following action on proposed legislation for the 2002 Legislative Session.

- **Increase Class A Benefits—**The board approved legislation to improve the Class A benefit formulas, due to the higher contribution rates that will be effective July 1, 2002.
- **2001 Tax Act Legislation—**The board approved legislation to implement the changes allowed by the 2001 Federal Tax Act. (The board also amended the SRP

rules to incorporate the changes allowed by the 2001 Tax Act.)

- **Additional Retiree Representatives—**In response to a proposal to add two retiree trustees to the SDRS Board of Trustees, the board adopted a resolution recommending that no change be made to either the composition or the size of the board.

Supplemental Retirement Plan: Expanded Services & Marketing—

Sue Oelke, National Deferred Compensation representative, presented the board with information on an increase in services and an expanded marketing plan for the SDRS SRP. These enhancements will be provided at no additional cost.

Trustee Attendance at Board Meeting

Present: Brian Berglin, Elmer Brinkman, Carol Burch, Tracy Dahl-Webb, James Hansen, Louise Loban, K.J. McDonald, Steve Myers, Robert Overturf, Pam Roberts, Lowell Slyter, Wes Tschetter, Don Zeller, Sandy Zinter, Steve Zinter

Absent:

Royce Hueners and Dave Merrill

Retirement Planning

SDRS Puts Retirement Planners on the Road

SDRS retirement planners are making group presentations and meeting with members one-on-one at sites located throughout South Dakota. All members of SDRS can benefit from the presentations, regardless of age. The earlier you put a retirement plan into place, the broader and more flexible your options will be. Consider the following when reviewing the planners' schedule:

- Both members and their employers within a county will be notified in advance of the county meeting. Employers in nearby counties will also be notified because their members may prefer to attend on an alternate date.
- Meetings will be scheduled for Tuesdays whenever possible.

- Retirement planners will be at a central location within the county from 4:00 P.M. to 8:00 P.M. on the day of the scheduled session. Individual counseling appointments may be set up in advance by contacting SDRS at 605-773-3731. A general presentation and question/answer session will be held from 6:30 P.M. to 7:30 P.M. **OUTLOOK**

SDRS STATE-WIDE MEETING SCHEDULE

SCHEDULE DATE	CITY	COUNTY	LOCATION	ADDRESS
February 19, 2002	Philip	Haakon, Jackson & Jones	Senior Center	Main Street
February 26, 2002	Selby	Walworth, Edmunds, Corson & Campbell	City Opera House	3409 Main Street
March 5, 2002	Gregory	Gregory	Gregory Auditorium Comm. Room	Main Street
March 7, 2002	Brookings	Brookings	*SDSU Benefits Fair	SDSU Campus
March 12, 2002	Mitchell	Davison & Hanson	AmericInn Motel & Suites	1421 S. Burr Street
March 19, 2002	Clear Lake	Deuel	Lakewood Inn	916 3 rd Avenue S.
March 26, 2002	Timber Lake	Dewey	Timber Lake Senior Center	Main Street
April 2, 2002	Lake Andes	Charles Mix	Lake Andes Community Building	Main Street
April 16, 2002	Britton	Marshall	Marshall County Community Building	909 S. Main
April 23, 2002	Lake Poinsett	Hamlin	Lake Poinsett at the Pier 81	Highway 81 (23 miles South of Watertown)
April 30, 2002	Belle Fourche	Butte & Harding	Belle Fourche Community Center	1111 National Street
May 7, 2002	Custer	Custer	Custer Co. Courthouse Annex	447 Crook Street
May 14, 2002	Parkston	Hutchinson & Douglas	Senior Center	111 th Street
May 21, 2002	Canton	Lincoln	Canton Library	225 N. Broadway
May 28, 2002	Winner	Tripp, Mellette, Todd & Bennette	Senior Center	146 E. 5 th Street
June 4, 2002	Plankinton	Aurora & Jerauld	To be announced	To be announced
June 11, 2002	Faulkton	Faulk & Potter	To be announced	To be announced
June 18, 2002	Webster	Day	To be announced	To be announced
June 25, 2002	Salem	McCook	To be announced	To be announced
July 2, 2002	Parker	Turner	To be announced	To be announced
July 9, 2002	Lake Preston	Kingsbury	To be announced	To be announced
July 16, 2002	Tyndall	Bon Homme	To be announced	To be announced
July 23, 2002	Flandreau	Moody	To be announced	To be announced

* Limited to one Employer

OUTLOOK Interview

continued from page 6



the staff to meet the size of the need. The board approved three additional positions that we hoped would be in place shortly after July 1 of this year. They were included in the governor's

recommended budget but were denied by the Legislature's Appropriations Committee. This will certainly hurt our effort to reach out to a 60,000-member system this year,

but we'll be considering requesting those positions again next year. Until then, we'll scale back our expectations and do the best we can with the resources we have. **OUTLOOK**

Dr. Lowell Slyter represents Board of Regents employees and has served on the SDRS Board of Trustees since 1985.



Dr. Lowell Slyter

“The idea behind the outreach initiative is to get members face-to-face with a planner.”

OUTLOOK *Interview*

In response to the increasing requests for retirement information, SDRS has begun an outreach initiative that will bring retirement planners into local communities. SDRS board vice chair Dr. Lowell Slyter describes the kinds of opportunities this new effort offers to members.

Outlook: What can members expect from SDRS's new retirement planners?

Slyter: The planners' primary job will be to help members pull together the information they need to make smart retirement decisions. That will include everything from estimating the amount of their SDRS benefit to discussing SDRS's Supplemental Retirement Plan. There's a lot to consider and a lot at stake.

Outlook: Is there a concern that members can make serious mistakes in their retirement planning?

Slyter: They certainly can if they aren't well informed. For example, we've had members who withdrew all their contributions in a lump sum. They were willing to forfeit membership in SDRS, thinking they could do better by investing in the stock market. These members took out a few thousand dollars but threw away hundreds of thousands in the value of their SDRS

benefits. There are similar issues that require careful consideration, such as a decision to take early retirement, the choice of pay-out options, whether to purchase additional credited service and so on.

Outlook: But hasn't SDRS always provided that kind of information to members?

Slyter: Absolutely. The information has always been offered by benefit specialists in the Pierre office and through SDRS's publications. But the idea behind the outreach initiative is to get members face-to-face with a planner—asking questions and establishing a personal rapport that carries on throughout the retirement process. We also hope that when members see that a retirement planner will be in their area, they will seek assistance earlier than they might have.

Outlook: So how old should members be when they start meeting with an SDRS planner?

Slyter: It's never too early, but too often that first step is put off, and it becomes too late. Members who meet with a retirement planner when they're 30 years old have a tremendous advantage because time is their ally. Thirty dollars a month in addi-

tional savings can turn into thousands of dollars in 25 years. Unfortunately, many members don't take a serious look at retirement until a year or so before their retirement date. At that point, time is their enemy and they have very few options. If you plan to retire at 65, then you need to sit down with an SDRS planner before you're 45.

Outlook: Are there retirement-related issues an SDRS planner can't address?

Slyter: There are. Planners are not tax advisors or Social Security representatives. They can't advise you about your investments or give you information about health-care options after retirement. And most importantly, planners can't make decisions for you. They provide information, answer questions, identify options, but they can't decide. That's a member's job. SDRS planners have a specific field of expertise, they are highly trained, dedicated and provide their services without charge. That's a powerful combination and a great resource for our membership.

As you look at the new initiative, do you anticipate any serious problems?

Slyter: We need this kind of effort, but the big problem is that we don't have

continued on page 5

PRSRSTD
U.S. Postage
PAID
Pierre, SD 57501
Permit No. 123

South Dakota Retirement System
P.O. Box 1098
Pierre, South Dakota 57501

